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Economic Conditions
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General Business Conditions.

THE general situation in business has changed little, with business in August quiet. The bad earnings statements of industrial companies and numerous dividend suspensions created a pessimistic atmosphere in financial circles. The American Sugar Refining Company, with 30,000 stockholders and a steady dividend record for thirty years, found it advisable in the face of conditions in the sugar business to discontinue dividend disbursements. The balance sheet of the Central Leather Company for June 30 shows a profit and loss deficit of $6,040,896, which compares with a surplus on March 31, 1920, of $30,640,498, a shrinkage of assets in 15 months of $36,681,394. Instances like these indicate the havoc that the fall of prices has wrought among the industrial companies. The common stock of the former company has sold down from a high of 118¾ last year to under 60 last week, and the common stock of the latter from 104¾ last year to 22¼. If the farmers who think they are the only sufferers from falling prices knew the facts about the losses of manufacturing and trading companies they would be less unhappy about their own. There has been misery enough to go all around.

The weakness of the whole list of stocks, notwithstanding the relaxation of credit conditions, has been indicative of little confidence in early business revival. The bond market last month was not so buoyant as in July, but showed good strength.

Bank clearings have been running about 26 per cent below those of a year ago, which in view of the fall of prices is a remarkably good showing. Railway traffic has been helped by the big grain movement, but car-loadings are about 20 per cent below last year. The earnings are making a better showing, due to the crop movement.

Iron and Steel

The industries are very quiet, with a few exceptions. There is said to be a little more activity in iron and steel, but the past month has seen further reductions both in wages and prices. Under the latest wage scale adopted by the United States Steel Corporation unskilled labor on the basis of a ten-hour day will receive $3 per day, which is 50 per cent above the wage paid at the beginning of 1915, but about 40 per cent below the wages paid on February 1, 1920, when laborers were receiving $5.06 for a ten-hour day. The high rate was 153 per cent above the 1915 level.

The following table shows wages of unskilled labor after each advance in wages since 1915, the percentage of each advance, and the cumulative advantage of each, together with statistics for the last three adjustments:

	Wages 10-Hr. Day.	Per Cent. Advance.	P. C. Ad'e Over '15 Rate.
1915	$2.00	....	....
Feb. 1, 1916	2.20	10.0	10.0
May 1, 1916	2.50	13.6	25.0
Dec. 15, 1916	2.75	10.0	37.5
May 1, 1917	3.00	9.0	50.0
Oct. 1, 1917	3.30	10.0	65.0
Apr. 16, 1918	3.80	15.0	90.0
Aug. 1, 1918	4.20	10.5	110.0
Oct. 1, 1918	4.62	10.0	131.0
Feb. 1, 1920	5.06	10.0	153.0
May 16, 1921	4.05	*20.0	102.5
July 16, 1921	3.70	†9.5	85.0
Aug. 29, 1921	3.00	*18.9	50.0

*Reduction. †Elimination of time and a half for overtime work over eight hours.

Textile Industries Active

The textile industries as a group are an exception to the general situation. This is particularly true in cotton goods, which have blossomed out into something resembling a real boom. The explanation apparently is, that, in the first place, owing to the long curtailment of production and the cautious attitude of buyers, dealers' stocks have been low; and in the second place, the very unfavorable reports concerning the new cotton crop have convinced the trade that prices will not be lower either for raw cotton or cotton cloth. This imparted confidence and prompted buying in sufficient quantities to start prices upward. The mills are well sold up for the immediate future, and in some lines until next Spring. Foreign orders have been received in sufficient quantities to help the revival.

The woolen goods trade also is in very satisfactory condition, with prospects good for the rest of the year. The silk industry has improved very much since the first of the year, and is operating at 50 to 60 per cent of capacity, but in this connection it should be remembered that capacity has been much expanded in recent years.

The Grain Crops

The grain crops are not quite up to last year, having suffered injury under the heat and dry weather of July. In the United States and Canada late estimates make the total yield about the same as last year, with the former country a little under and the latter a little over last year's.

Owing to the emergency customs duty of 35 cents per bushel it is probable that less Canadian wheat will come into this country than last year, but as much of the Spring wheat grown in the Minneapolis territory is of poor quality it will be necessary for the mills to bring in considerable for mixing purposes, to maintain the grade of their flour. The tariff will add to the cost of flour to that extent, and recent statements at Washington again raise the question whether this tariff really does anybody any good.

Thus Mr. J. R. Howard, President of the American Farm Bureau Federations in a statement before the Interstate Commerce Commission in behalf of a reduction of freight rates on grain, is quoted in the Washington dispatches as follows:

> J. R. Howard, president of the American Farm Bureau Federation, said that prices on grain were fixed where the surplus accumulates, usually in Liverpool, and that this price, less commission, and the cost of transporting the grain to the points where the prices are made was what the producer received. Therefore, he added, any increase or decrease in freight rates was felt directly by the farmer.

This is so much like what was said in these columns last Fall when the movement for putting a duty upon wheat was started, that we feel justified in referring to it. We said then that Kansas City, Chicago, Minneapolis, Winnipeg and other world markets moved together, affected by common influences, and that so long as this country and Canada were both exporting largely to Liverpool, prices in both countries would be approximately the same; and that if all Canadian wheat went to Liverpool it would compete with our wheat and take the place of our wheat as truly as though it came into this market. As a matter of fact all that the new tariff has done to Canadian wheat has been to cause it to move to the seaboard over Canadian railways and through Canadian ports, instead of moving in part over our railways and through our ports. It has the further effect, however, of disturbing exchange relations, and of producing irritation between this country and our friendly neighbor, who is our best trade customer. And this is the way legislation intended to control economic conditions usually works out.

Wheat Situation

The wheat movement in this country is in marked contrast with that of last year. Five of the big railroads in Kansas moved three times as much wheat in July this year as in July last year, and receipts at all primary markets since the beginning of the new crop year have been about double those of last year.

The rapid marketing has made a heavy load for the speculative market to absorb, just at a time when the speculator has been in greater disfavor than ever, and the market for the September and later deliveries is down about 25 cents per bushel from the top. Although the future markets are not below the spot market, as they were last year, they are not enough above to yield a carrying charge.

The general situation as to wheat is good. Unlike that of last year, domestic stocks of flour are small and the millers are buying grain freely. The world situation is closely balanced, Broomhall estimating European requirements at about the same as last year. If anything should go wrong with the crops in Argentina and Australia, wheat might go considerably higher.

The corn crop is about 200,000,000 bushels under last year's, but is around 3,000,000,000 bushels, and the carry-over from last year is very large. The oat crop is poor, but there also the carry-over is large. Prices of corn and oats in Chicago are below those of any year since 1906, and with higher freight charges from the local shipping points this means still greater declines have occurred in producers' prices.

The Cotton Crop

The situation of the cotton crop would signify disaster in normal times. The acreage was reduced about 25 per cent, and now the condition of the crop forecasts a low yield per acre. The carry-over is unusually large, and all interests in the South have been wanting a short crop, calculating that the gain in price upon the carry-over would compensate for the loss on this year's yield. The statistician of the New Orleans Cotton Exchange calculates the total carry-over of all kinds at 9,194,000 bales, but about 2,100,000 bales of this is held abroad, and much of the domestic stock is of low grade, carried over from previous years. The present talk in the trade is that the new crop will not make over 7,000,000 to 7,500,000 bales, and that when allowance is made for mill stocks and time required to get the 1922 crop upon the market, the supplies for the coming year will not equal a normal year's

consumption, although probably sufficient to meet the world's demand if this remains at the present low level throughout the year.

In curtailing the acreage in cotton the Southern farmers have increased their acreage in the grains, particularly corn, and will have a much better supply of home-grown foodstuffs for man and animals during the coming year than has been usual in the past. That this is following a sound economic policy hardly can be questioned, but it will have the effect this year of making the northern farmer pay more for his cotton goods and get less for his grain and live stock. It is another repercussion of the fact that the rest of the world is not able to buy clothing as usual.

Live Stock

The live stock markets had a good recovery in July, but lost nearly all of it in August. An undesirable feature of the situation is the light movement of feeders and stock cattle from the central markets to the farms. There is a great amount of feed of all kinds in the Western country, and for this reason the movement of young and unfinished cattle to the slaughter pens is to be regretted. The $50,000,000 cattle fund was subscribed by bankers to take care of this situation, and is being put to this use. Already reports are coming to the effect that the market for cows and young stock is being supported and stabilized. The loosening up of the credit situation which has resulted from the large wheat movement has put many farmers in position to buy feeders, and the decline of prices for both feeders and corn puts the business of fattening cattle on a sounder basis than it has been for several years.

Demand for Money

The demand for new money is light. While the boom was on and the tendency of prices was upward, money was in constantly increasing demand, for no matter what profits borrowers made nobody wanted to use any of them for so uninteresting a purpose as paying debts. That situation has changed. While the low prices are making money tight, the demand is for the purpose of paying old debts. The people now have their minds fixed on getting out of debt.

The Interior More Cheerful

Notwithstanding the many discouraging factors in the situation, reports from over the country indicate that pessimism is less intense than earlier in the year. The crop has been made upon very low expenditures. The farmer has gone resolutely at the task of reducing production costs, and in so doing has set an example to all the industries. In the wheat country an important amount of debt-reduction is going on, and throughout all the agricultural sections the body of indebtedness will be reduced this Fall. People begin to feel better as they see their debts go down, but they will not feel that conditions are right, nor be in position to resume normal buying, until the prices and wages which they have to pay have come down to correspond with the prices of their own products. And for this nobody can blame them.

What Is Elasticity?

At a "Southern Merchants' Retail Conference" held in Richmond on August 17, the presiding officer is quoted as declaring that the Federal Reserve system "had no more elasticity than a section of a railroad track." The gentleman apparently overlooked the fact that the total bills discounted of the twelve reserve banks increased from approximately $100,000,000 in the first week of April, 1917, when the United States entered the war to $2,171,760,000 on November 8, 1918, the date of the statement nearest to the Armistice, and then increased to $3,126,594,000 on November 5, 1920. Nor does he take account of the fact that the reserve bank of the Richmond district is now borrowing an important sum of the reserve bank of the New York district to supplement the former's own resources. Evidently this gentleman's idea of elasticity is simply an endless capacity to stretch.

Unemployment and Wages.

It is a deplorable fact that a great amount of unemployment exists at this time in the United States, and it is evident that the loss of wages is not only a serious matter to the individuals deprived of their incomes, and the families dependent upon them, but constitutes a loss of purchasing power which is an important factor in the general depression.

The monthly estimates by United States Employment Service of the Department of Labor have indicated an increasing number of people out of work throughout this year. The estimate for August 1 indicates a decline in the number of employed as compared with the same date last year of 5,700,000. This does not allow for the number who have found employment in industries not reporting, which undoubtedly is considerable, or does it include the persons who are working only part time.

The following calculation shows the number of workers employed in certain leading industries in June, 1921, with the number employed in identical establishments in June, 1920, and also comparing the pay roll totals for the two months. In both cases the figure 100 represents the June, 1920, basis:

	Workers Employed June, '21	Amount of Payroll June, '21
Iron and Steel	—39.6	—65.0
Automobiles	—37.5	—39.7
Car Building and Repairing	—41.6	—38.4
Cotton Manufacturing	— 0.4	—26.2
Cotton Finishing	— 0.6	—18.6
Hosiery and Underwear	—20.8	—38.2
Woolen	+ 3.9	+ 8.3
Silk	— 6.5	—13.4
Men's Clothing	—12.8	—21.5
Leather	—28.2	—40.6
Boots and Shoes	—13.1	—18.7
Paper Making	—34.6	—47.7
Cigar Manufacturing	— 0.6	—14.0
Coal (bituminous)	— 4.8	—21.6

The Industrial Commission of the State of Wisconsin in Bulletin No. 10 presents the results of a canvass of 211 establishments in that state, employing at this time 56,000 workers, or about one-third of the present number of factory employes in the State. It finds that the decline in number of workers since July, 1920, is 37.1 per cent and that the total reduction in pay rolls, including that due to wage-cuts as well as unemployment, is 48.4 per cent. Average weekly earnings for those employed were about 23 per cent below the peak, which was reached in August, 1920, and about the same as in the first quarter of 1919. The Commission calculates that the cost of living had declined 21 per cent July 1, 1920, and is now about the same as it was in the closing months of 1918.

The report of the New York State Industrial Commission on conditions in this state in June shows a decline of 28 per cent in employment since the peak, March, 1920, and an average decline of 11 per cent in earnings of persons employed.

The Relation of Wages to Prosperity

The foregoing statements furnish evidence enough that the present state of unemployment is a matter of very grave public concern, and that up to this time it has been growing worse rather than better. The longer people are out of work the more serious the situation naturally becomes. As they draw upon their savings and exhaust their credit, their purchases are reduced, with the result that consumption continues to decline, throwing more people out of employment and intensifying the depression. The unfavorable effects are cumulative until a stage is reached where the demand for goods and labor begins to increase, and from there on the favorable influences are cumulative until a general state of employment and prosperity is reached. Everybody is losing money while business is on the down grade. The earnings of capital as well as of labor fall off, and many investments are lost or put in jeopardy. There is a common interest in knowing the conditions that must be reached before improvement may begin.

Labor leaders are laying emphasis upon the importance of keeping up wages as a means of maintaining consumption, and their argument is based in part upon sound principles. It is true that the ability of each individual to buy depends upon what he receives for his own services. That is a point of agreement from which all may start in an inquiry into the situation.

The whole industrial organization is essentially co-operative. It does not sell outside of itself; it effects an exchange of services, and anything that suddenly changes the basis upon which the exchanges are made interferes with them and slows down industry.

The Farmer as a Factor in the Nation's Prosperity

The plea of the labor leaders against a reduction of wages would be sound if wages were being reduced below the level of prices ruling for the products of labor, or below the general compensation of the great body of workers outside of their own organizations.

The trouble at the present time is that what the labor leaders are protesting against has already happened to more than one-half the workers of this country. These leaders are trying to maintain the pay of a minority, at the expense of the majority.

The farmers and producers of practically all primary products and raw materials have taken reductions of approximately one-half the value of their products. The prices of their products are back to the pre-war level. They have lost a great proportion of the purchasing power they have been using in recent years, and the market for the services of all the workers who have been supplying them has been curtailed accordingly. This is the fundamental cause of the unemployment which has spread over this country in the last year, since cotton, corn, oats, live stock, rice, wool, hides, dairy products, flax seed, the principal metals and other primary products began to fall. It is true that as factory-workers and others were thus forced out of employment the evil effects have been increased, but the original impulse and the main influence comes from this great body of people who extract wealth directly from nature and who are largely dependent upon world markets.

Moreover there is no prospect of a recovery of farm products to the levels of war time. Doubtless they are now unduly depressed and will swing back to a normal level with improvement in general conditions, but any expectation that they will recover to the war level, or to the present general level of wages and manufactured goods, is wholly unwarranted. The sooner war-time prices and wages are forgotten the better. They are not normal in times of peace.

The Equilibrium in Industry

Moreover, the essential thing is not the general level of all wages and prices, but right relations between wages and prices, and between the different groups of producers, so that they can trade with each other. The farmers have nothing but the products of their labor and of the soil with which to buy the products of the other industries. They will give their products as far as they will go, but there their buying ends. Whatever affects any great group of consumers and throws industry out of balance, so that the normal exchanges are disturbed, and normal consumption is curtailed, is bound to affect trade, industry, transportation, banking and every kind of business unfavorably. Nobody gains by it; everybody loses by it.

The labor leaders overlook another fact, which is that the aggregate of wage-payments has been reduced already, and the loss in consuming power on the side of the wage-earners which they wish to avoid has already taken place. The problem now is to equalize it, and find compensation for it in lower prices for what the wage-earners consume.

The wage-earners as a class are interested in the restoration of the normal state of balance, in which all of them can be steadily employed. It is not to their advantage to have wage rates so high that large numbers of workers cannot have employment, or can have it only part of the time. It is unfair and oppressive to the consumers who are obliged to curtail their purchases, and without benefits to the wage-earners as a whole. It is not even beneficial to those who are so fortunate as to have employment, for it keeps the cost of living to them above the natural level. It is an artificial situation which cannot be permanently maintained.

The Public the Real Employer

There are several misconceptions of the wage question which appear persistently in everyday discussion. One is the common assumption that wages are an issue between employers and employees, with nobody else involved. Of course the public is the real paymaster, and in the last analysis the public is composed chiefly of the wage-earners themselves. Whatever they do to the public they do to themselves. The employer is simply an intermediary who plays a useful part by organizing industry and undertaking to pay a fixed wage, but unless he gets full reimbursement from the public he is soon out of business.

Another common mistake is that which lays all emphasis upon money wages. The value of money is in what it will buy. The standard of living is not fixed in the wage scale; it consists of a certain standard of comfort, certain supplies of consumable goods. The real compensation of the worker for his own labor comes in the products and services of others.

While prices were advancing the labor leaders were quick to claim that money was nothing but a medium of exchange and did not represent their real compensation. They insisted upon wage increases to compensate for loss of purchasing power, and got them.

Now the situation is reversed. The farmer is in the same situation that they were then. His purchasing power has fallen off, and his standard of living has been lowered. The labor leaders are not fighting to defend their own standard of living, but to raise it permanently at the expense of the farmer. That may not be their deliberate intention, but it is the effect of what they are trying to do. Moreover, the full effect is not beneficial even to the wage earners, for it disrupts the exchanges and paralyzes industry.

Wages As a Factor in Prices

It is a common saying that wages should not come down until the cost of living comes down—that wages should follow rather than lead in the decline. This is correct to the extent that wages are not themselves the cause of the high prices. But it is important to bear in mind that the "cost of living" is not a thing by itself. It consists of the compensation of all the people who do anything for us. One man's wage is another man's cost of living. The two things cannot be discussed separately.

One of the recent attempts to lower wages was by the meat packing companies, who are operating under an arbitration agreement with their employees. The companies recently asked a reduction of 5 cents per hour, and the Arbitrator, Judge Alschuler, after reviewing the situation, rendered an adverse decision. His opinion describes conditions that are illustrative of the general industrial situation.

Wages in the Packing Industry

In 1914 the common labor rate in the packing houses was 17½ cents per hour, with a 10 hour day. By the last of 1917 the rate had been advanced by the companies to 27½ cents. Early in 1918 the industry, in the important centers, passed under government supervision, and wage rates since have been fixed by the Arbitrator. In March, 1918, common labor was advanced to 32 cents, with a higher rate for overtime after 8 hours per day. Other increases raised the basic rate to 55½ cents at the peak in 1920, from which it had been lowered to 45 cents, where it now stands.

The Arbitrator held that the reductions previously made amounted to 19 per cent, and that the cost of living to the packing house employees forbade a further reduction at this time. We quote briefly from the opinion, as follows:

So far as the cost of living is a factor, while there has undoubtedly been considerable recession since last December, I am not convinced that, as applied to the large majority of such employees, it has fallen as much as the employers contend. We know that in some very important respects it has not declined at all. If these employees have taxes to pay on any property they may possess, they have found them constantly mounting, with reasonable certainty of still higher rates. Most of them must use the street cars, and fares remain stationary at 60% above what they were. Gas and electricity also remain at the highest price. Fuel, which all must have, is not apparently lowered to these small consumers, while ice has become almost prohibitive in price. Newspapers, a most general necessity, remain at the highest point, from 100% to 200% above 1914 prices. Rents, which have not yet receded from the high mark of 1920, but have in instances even mounted, show no sign of abatement. Telephone and telegraph service remain at uppermost level, likewise freight rates and passenger fares; and while these may not directly enter into the living cost of the average packing house employee, they surely have their influence indirectly. True, there have been notable reductions in some prices—sugar, vegetables, some canned goods and cereals; and coffee, butter, eggs, flour and many other articles of food have been more or less reduced, but such very essential articles, as milk, bread and bakery stuffs, fruits and meats have not undergone very great reduction to the small consumer.

Wearing apparel has decreased quite materially, although many of the widely advertised reductions leave the public under the false impression that they are typical of the things which these people must buy.

An examination of the items specified by the Arbitrator will show that the principal factor in them is labor. In other words, while wages in the packing industry are 160 per cent higher than before the war, at the expense of producers and consumers, the cost of living to the packing-house employes is being held up by high wages elsewhere.

The Arbitrator's decision takes no account of the plight of fully one-half the people of the country, who have already been reduced to practically pre-war incomes, or of the millions of wage-earners out of employment. It contemplates no relief for the situation. On the contrary, the policy which it proposes, if generally adopted, will be an insuperable barrier to recovery. It is a stand-pat policy applied to a situation that cannot stand still.

Wages a Universal Factor

It is probable that the margins of middlemen have not in all cases been readjusted to suit present conditions. Where this is true the middlemen share the responsibility for the continuance of present conditions, but to a great extent middlemen's costs are kept up by the same general cause that is sustaining industrial costs—wages that are too high for present conditions. High rents are a reflection of high building costs, which are due to high wages in the building trades, and building material industries, high transportation costs, etc., etc.

The Arbitrator refers to railroad charges, which he says surely have an influence upon living costs. Undoubtedly they do. Railroad charges enter into everything. The iron and steel industry has made wage reductions considerably greater than those made in the packing industry, and the average reduction in iron and steel products is approximately 40 per cent. Mr. Grace, President of the Bethlehem Steel Company, has made a statement explaining that if allowance is made for the increase in costs due to railroad charges, steel products are now lower than before the war. In announcing new and lower prices for steel products, going into effect on July 5th, last, Mr. Grace said:

The increase in freight rates has been the largest factor in increasing the cost of manufacturing steel products because the making of a ton of finished steel involves the transportation of more than 5 tons of raw materials. The cost factors next in importance are materials and labor.

Taking as an example the price for structural shapes, under the new schedule of prices, 2 cents a pound or $44.80 a gross ton, the comparison with pre-war prices, reflecting concretely the three more important cost factors is as follows:

1st: The increase over pre-war cost in transportation on ore, coal, limestone, scrap and miscellaneous supplies amounts to $7.85 per ton of finished steel.

2nd: The increase in the cost of coal, ore, limestone, alloys, refractories, lubricants and miscellaneous supplies at point of shipment amounts to $7.10 per ton of finished steel.

3rd: The increase in the cost of labor under the present wage scale, as compared with pre-war wages in the steel plant proper, is 5.64 per ton of finished steel.

These items account for an increase in present day costs over pre-war costs of $20.59 per ton of finished product. The new price of $44.80 for structural steel is equivalent to a pre-war price of $24.21 per ton, or 1.08c per pound.

Statistics covering the last twenty years show that in only one month (December, 1914) has structural been sold as low as this figure (1.08c). The ten-year pre-war average (1904-1913) was 1.51c per pound.

The figures I have used are the result of actual compilation made by the Company's comptroller in the every day conduct of the business.

Iron and steel products enter into farm implements, railroad costs, and the costs of every line of industry.

The Railroad Wage Situation

Railroad charges are commonly regarded as more important than any other single factor in the present situation,—the general wage-level excepted—and wages make the railroad situation what it is. The question of railroad rates is a question of wages. It has been wages, expended in one way or another, either directly to their own employes or indirectly in payments for coal, equipment and supplies, that has put up railroad rates to where they are. In fact, but for the enormous investments of capital in the last twenty years, for the purpose of reducing operating costs, rates would have to be much higher than they are.

Owing to the prevailing business depression 25 to 30 per cent of the regular force of railroad employes is laid off, getting no pay at all. This means that if they could all be at work at a corresponding reduction from the present

wage scales, the sum distributed as railroad wages would be the same as now, and it would be more equitably distributed than it is now. Moreover, a reduction of such proportions in wage rates probably would permit of an even greater reduction in freight rates, particularly if it was accompanied by corresponding reductions throughout all the industries, because the stimulus given to business would increase the volume of railroad traffic. Railroad rates are under public supervision and there is every reason to believe that they would be made to conform to increased earnings.

Finally, such a general reduction of industrial costs would reduce the "cost of living" not only to railroad employes but to wage-earners, farmers and everybody, increase the purchasing power of the entire population, enlarge the consumption of all products, and improve the whole situation.

Railroad Wages

The Railway Age recently made a calculation showing that since the reduction of 12 per cent as of July 1, 1921, the average cost per hour of railway labor is 123 per cent higher than it was in 1916, 90 per cent of the employes being paid by the hour. In the elaborate statistical tables presented to the Senate Committee by Mr. Kruttschnitt in March, it appears that the labor bill of the carrier in 1916, before the Adamson law took effect, was in round figures, $1,468,500,000. Increases since 1912, excluding switching and terminal companies, have been as follows:

1917	$270,900,000
1918	874,300,000
1919	229,300,000
1920	855,000,000
Aggregate increases since 1916	$2,229,600,000

The figures given are actual. The increase made in 1920, however, was in force only a part of that year. Mr. Kruttschnitt in commenting, says, "This means that the labor costs to the carriers in Class 1 were actually greater in 1920 than in 1917 by more than 115 per cent, and that if the increased scale had been in effect during the entire year 1920, the increase would have been about 128 per cent." If comparison is made with the figures of 1916 the increase is 151 per cent.

A Strike Vote

The Brotherhoods have not yet decided whether they will accept the 12 per cent reduction. The heads of the orders at a conference with the railroad presidents asked for a pledge that no further wage-reductions would be sought, and the presidents very properly replied that with regard to the public interest they could not make such a promise. Ballots are being sent out to the membership for a vote on whether to accept the decision of the Labor Board which went into effect July 1st, or strike.

Where Does the Remedy Lie?

Meanwhile committees representing farmers, stock-growers and other shippers are in Washington, pleading with the Interstate Commerce Commission to reduce railroad charges, to save the industries. The Secretary of the Federation of Farm Bureaus for Iowa is reported as arguing to the Commission that railroad rates should be reduced to relieve agriculture, because agriculture is a basic industry. Nobody can deny the importance of agriculture, but if agriculture cannot live without railroad facilities there is something to be said in behalf of the railroads as a basic industry.

It would seem to be the proper policy to divide the delegations going to Washington, and send one-half of them to Chicago to make representations to the Railroad Labor Board, or perhaps to Cleveland, to present the facts directly to the Brotherhood authorities, who have been represented as desiring to co-operate with the farmers.

Labor's Share of the Product

Much of the trouble which is now being experienced over wage adjustments results from the reckless methods which prevailed in governmental expenditures during the war. Governmental expenditures dominated the industrial situation, and they were met in the main by the use of credit. There was no pretense in governmental finance of making ends meet, but private business cannot be carried on in that way.

The present trouble results in part also from the vague talk that was common in war time, and is common now, to the effect that a radical change was taking place in industrial relations and that the wage-earning class in the future would have a much larger share of the industrial product than in the past.

Distribution Dependent on Production

This declaration doubtless has represented a kindly wish or hope that the position of the wage-earning class would be improved, but those who utter it seldom have any definite idea about how the wish may be realized. They expect somebody else to realize it. The fact is that the distribution of current production takes place according to natural economic laws, and those laws are the same now as they were before the war. The production and distribution of wealth are not unchangeable; they are changing continually, but in accordance with economic law. In Russia an attempt has been made to increase the distribution of wealth without regard to economic law, or the facts of human nature, with the result that industry has been paralyzed, production

has come almost to a standstill, and the nation has been reduced to beggary.

The fallacies that are responsible for the tragedy in Russia permeate all of the theories which propose to improve the condition of the masses by a mere redistribution of the present industrial product. The fundamental fallacy in all of them is that of laying the emphasis upon distribution instead of upon production.

The Value of Leadership

Another error is in enormously exaggerating what might be done for the masses by seizing the incomes of the rich. In the first place the masses now get so large a share of all that is produced that if it was possible for them to get all the rest it would make no great change in their condition; and in the second place every attempt to seize the rest by arbitrary methods causes it to disappear, as it has in Russia. The fallacy is in thinking that the leaders and managers of industry and business are not worth as much as they get, whereas every experiment in getting along without them shows that they are worth a great deal more than they get. Everything goes to pieces without them. This does not, of course, mean that the individuals now holding positions of leadership and management are all indispensable. If they should all pass away, others would be found to take their places, but there must be leadership and recognition of ability and reward for initiative and service, or society goes to pieces. Even the labor organizations find it necessary to have leaders, and pay them salaries much in excess of the average earnings of the members.

Division of the Industrial Product

Professor David Friday, who teaches political economy in the University of Michigan, has made a study of corporate incomes in the United States during the war period, when profits are supposed to have been larger than ever before.* He found that 1917 was the year of largest profits, and that the combined earnings or proceeds of the manufacturing, mining, railroad, and public utility industries in that year were divided as follows:

		Per cent
Wages and salaries	$11,100,000,000	54.3
Taxes	2,360,000,000	11.5
Interest	1,180,000,000	5.8
Dividends	3,070,000,000	15.1
Surplus	2,731,000,000	13.4
Total	$20,441,000,000	100

The total paid in interest and dividends was 20.8 per cent of the values created. That is what went as compensation to the people who provided the capital employed in these industries. It did not all go to rich people. The interest payments went for borrowed money, and many of the securities of these corporations are owned by savings banks, insurance companies, employes and small investors. The "surplus" is not personal income, but a part of the earnings retained in the business. It may never be drawn out; it may be lost, as in the case of the Central Leather Company mentioned on page 1, but while it exists as surplus it is being used to enlarge the business, increase the product and afford employment to more labor. As long as it is so employed it is a common fund, rendering service to the employes and the public as well as to the owners. The figures for "surplus" increased while prices were rising and diminished when prices began to fall.

Taxes for the most part go to cover expenditure for personal services, either in salaries or wages.

Numerous calculations upon the distribution of national income have been made by recognized authorities, and all show results varying but little from Professor Friday's. They afford data upon which an approximate estimate may be made of how much wages may be possibly increased out of the current industrial product.

It should be considered that not all of the 20.8 per cent which goes to interest and dividends is retained by the recipients for their personal use, as a part of it is re-invested for the development of industry. In fact all that the owners receive above their living expenses is returned to industry and disbursed in some form to labor. The investment fund, from which our railroads have been built and upon which our industrial progress depends, is made up jointly from savings out of this 20.8 per cent and savings from personal earnings. In whatever proportion the investment fund represents personal savings the owners of those savings share in the 20.8 per cent.

After making allowance for that proportion of the 20.8 per cent which is a return upon personal savings, and that portion of the remainder which is returned to industry for the common service, how much of capital's remaining share can labor reasonably expect to get, and how much of a disturbance in industry can it afford to make in order to get it?

The Standard of Living

All talk about the "standard of living," or "living wage," which looks merely to an advance of money-wages is meaningless. Efforts along that line are fruitless. They travel in a circle, each wage advance raising the cost of living. It is impossible to divide any more than is produced. You cannot with 500,000,000 bushels of wheat give 100,000,000 people six bushels each. It is well to have an ideal stand-

*See "Profits, Wages and Prices," Harcourt, Brace & Howe, publishers, New York, page 117.

ard of living to work for, but it is not something that can be picked out of the sky; it can be realized only as the industrial capacity of the country rises to it.

The great lesson of the present situation is that there is a certain fair and proper adjustment of relations between the people employed in all of the various occupations. It is a natural adjustment, made by the people themselves in selecting the work they shall do, taking account of their abilities, inclinations and all the conditions surrounding employment. When such natural and just relationship is disturbed, the industrial organization slows down until whatever is wrong is made right. It is like an automatic loom which weaves cloth without a tender until something goes wrong, and then stops and will do no more until that something is fixed.

Public Construction

The demand for great expenditures upon public works to give employment to labor at present wages is fundamentally wrong, and so is every artificial scheme to provide work at inflated costs. It is an attempt to evade and defeat the economic law. It assumes that society can lift itself by its bootstraps.

The cost of public construction would have to be defrayed by bond issues, which would mean more tax-exempt securities, more competition with bonds now outstanding and lower prices for them. It would mean heavier burdens for the tax-payers, and further depletion of the capital supplies from which the real revival of industry must come. Every such increase in the burdens upon industry, every move that wastes capital in uneconomic expedients, delays recovery.

The people who advocate such policies think they are dealing with a temporary situation, but this is not a temporary situation. Industry will not be self-supporting again until it is brought back into balance, so that the products of the workers in the various lines will be naturally exchanged and absorbed. When one-half of the population has had its compensation cut one-half it cannot afford to pay taxes to keep the other half employed at war wages.

The Situation Waits

It is not difficult to see what is the matter with industry in the United States and over the world. The situation is practically the same everywhere. The demoralization and poverty of Europe, resulting from the war, is of course a factor in it, but the chief cause even in Europe is not the losses of the war, but the unbalanced state of industry as between the producers of primary products on the one hand and the producers of manufactured products and the groups engaged in trading and transportation on the other hand.

It is a rather familiar comment, and not a profound one, that there must be something wrong with the existing order of society. Evidently there is. Briefly stated, in a society that is essentially co-operative, people are refusing to co-operate. We have developed a highly specialized, interdependent, but voluntary system of industry, so complicated that many people do not understand their own responsibilities in it.

There seems to be nothing to do but allow the economic forces to work things out in their own relentless way. The workers in each industry have the privilege of saying that they will not come down until everybody else does, and perhaps not then. Nobody has authority to say who shall come down first, or that anybody shall come down. They will have to settle it among themselves.

Meanwhile, however, millions of men are idle and millions of wages are being lost. It is a pity the agony must be so long-drawn out, a pity the inevitable adjustments cannot be quickly made, with intelligent comprehension and a co-operative spirit. A machine cannot be started unless all its parts are in right relation to each other; a factory cannot be operated effectively unless all the departments are in balance with each other; and it is the same with the industrial organization of the country and the world.

The Way of Real Progress

The way of real progress is not by the efforts of each group or class to get the better of others by methods which embarrass and curtail the production of wealth, but by intelligent efforts to increase production. All of the progress of the past has been accomplished in this manner. The greatest factor has been the new investments of capital, providing machinery to take the place of hand labor. Every new device which makes labor more efficient, sets labor free to do something else that will contribute to the general welfare. It is by this method alone that the standard of living is raised.

The Federated Engineering Societies, which was organized in November, 1920, with Herbert Hoover as its first President, at his suggestion appointed a committee of engineers to make a study of industrial wastes, with a view to suggesting improvements in methods. The Committee has completed the first studies undertaken, and the report is exceedingly interesting in what it reveals. The Committee says that it "has established no theoretical standard of performance," but that in its investigations "industrial waste has been thought of as that part of the material, time and human effort expended in production represented by the difference betwen the average attainments on one hand and performance ac-

tually attained on the other as revealed by detailed reports."

The findings so far as investigations were carried indicate that without any new inventions or discoveries, but simply by bringing all performance up to the level of the most approved practice, and by increased co-ordination and co-operation, the efficiency of the industries might be approximately doubled. Evidently such results could not be accomplished suddenly, but the report ought to give a great stimulus to efforts for improvement, and the purpose is one upon which employers and wage-earners may advantageously work together.

Embarrassing Industry

The other side of the situation is illustrated by the stories of wasteful expenditures which the railroads have been compelled to make by the unreasonable rules adopted for the regulation of operations under government management. They are illustrated also by the following extract from the findings of the Industrial Court of Kansas, which has been investigating the coal industry in that State:

> A perfectly organized group of inefficient workmen with no expert qualifications in the main have gradually, year by year, assumed complete control of the production of coal in the Kansas field, both by procuring the passage of favorable and meaningless laws and by ironclad contracts with their employers whereby they now draw excessive wages for their labor and practically dictate every detail of the operation of the coal mines.
>
> The mine owners, rather than meet the issues when they appear in detail, have successively acquiesced until they are powerless to resist without a present cessation of operation and consequent loss, so that the operators passed this on to their selling mine producer's profit and pass it on to the retailer, who simply adds his margin and passes the sole burden to the public.

The situation in the Kansas coal mines is not to be taken as true of all industry, but it is the situation that naturally develops where the labor organizations are under leadership which is chiefly interested in cultivating antagonism to employers. This is not to say that employers are never at fault. The report of the Engineering Committee says that the larger part of the wastes of industry are up to management for correction. The wastes of management, however, are seldom intentional. They are often caused by ignorance of the best methods, and largely result from lack of capital. Employers are largely graduated from the ranks of workmen and frequently get into business with inadequate capital.

Our very system of individual liberty results in many individuals getting into positions as proprietors and managers which they are not well qualified to hold. Of course there is incidental waste in all this, but it is preferable to any system of supervision that would close the door of opportunity to any but a selected class. The best test of qualifications for management is the test applied by open competition.

The Railroad Funding Plan.

It is difficult to understand the opposition which has developed to President Harding's plan for funding the indebtedness which the railroads owe to the Government on capital account. The plan is one of simple justice to the railway companies and its execution would unquestionably have far-reaching beneficial effects, releasing frozen credits, stimulating railroad purchasing and increasing employment.

There seems to be so much misunderstanding of the rather complicated financial relations of the railroads to the Government, that an analogy of the situation may be illustrative. Let us assume that the Government found it necessary, for war purposes, to seize and occupy a certain building valued at, say, $189,000, (which sum if multiplied by 100,000 is the value of the railroad property involved in this question). In taking possession, the new tenant wrote the lease largely to suit himself and undertook to pay as rental the average net revenue which the property yielded during the preceding three years—about $9,000 a year. The lessee also agreed to pay some of the taxes and to return the property in as good repair as when it was taken over. Another and rather extrordinary stipulation was that the lessee might alter the building as he saw fit, make such additions and betterments as, in his uncontrolled discretion, seemed necessary, for which he was to be ultimately reimbursed by the owner. It was recognized, however, that it might be a great hardship to the owner to have such additions and betterments taken out of the rentals, and provision was made in the contract that reimbursement might be in the form of obligations running for ten years. This arrangement would enable the owner to receive the rental regularly in cash, and give him time to pay for the permanent improvements on the property.

The Situation at Settlement Time

At the termination of the lease it appeared that the tenant had spent over $11,000 on the property, of which something more than $3,500 was for new equipment and $7,500 for other additions and betterments. On the other hand, the rents had not been paid in full, over $6,000 remaining due. The lessee then proposed to take serial notes from the owners for the cost of the new equipment but insisted that the $6,000 of overdue rent shall be applied to extinguish in part the remaining $7,500 debt. The owners protested that they must have cash—they had numerous bills to meet and could not raise the necessary money at the moment, largely because during the occupancy of the tenant the earning power of

their property had been impaired. They asked that the time of paying for the additions and betterments placed on their property be postponed.

If the sums stated be multiplied in each instance by 100,000 the above statement practically will parallel the terms of the arrangement by which the Government took over the railroads and the present situation.

The Question of Deferred Payments

As settlements are effected with each company the question of what to do about these investment obligations presses for disposition. Under the railroad act as passed by Congress the Administration is authorized to accept ten-year bonds in reimbursement for capital expenditures, but if this is done the Administration will have to pay all of the rentals forthwith in cash, and that would require an appropriation by the Congress, which it shows no disposition to grant.

In this situation a plan was devised of having the War Finance Corporation, by means of its capital and the power to sell its notes on the market, buy the securities taken by the railroad administration in the settlements. and sell them gradually in the market as the market will absorb them. This would avoid appropriations from the Treasury but give a temporary loan of public credit to assist the railroads in paying for their obligations on capital account. This plan has been approved by the government railroad administration and by President Harding, and a bill to put it into effect has passed the House but so far has been held up in the Senate. In no sense does the plan contemplate any bonus to the carriers, but grants temporary assistance to them in making payment for permanent investments made upon the properties by the Government during the Government administration.

The Amounts Involved

The value of the railroads, as tentatively certified by the Interstate Commerce Commission, is $18,900,000,000. The rental during Federal control was about $900,000,000 per annum. The Government expended for additions and betterments $763,000,000, and for new equipment $381,000,000, or a total of $1,144,000,000. Of this amount, $393,000,000 has already been funded, and $55,000,000 has been paid by certain railroads in final settlement, thus leaving $696,000,000 still due the Government. Against this, the Government owes the railroads $625,000,000, which amount would presumably be paid to them in cash if the Administration's plan of funding the above net indebtedness of $696,000,000 is adopted. The principal item of indebtedness on the part of the Government to the railroads is $460,000,000 of unpaid compensation.

The Question of Under-Maintenance

A pledge was made to the railroads in the Federal Control Act that their properties would be returned in substantially as good repair as when they were taken over. A disagreement developed over whether the standard of maintenance was to be money expenditures, with a certain allowance for higher prices, or physical condition. The railroads interpret the contract that like physical reparation should be made regardless of cost—tie for tie and rail for rail. It is a fact that during the Federal control period the Government placed less ties in the track by over 30,000,000. Similarly, it used 500,000 tons less rail and 2,000,000 cubic yards less ballast.

In contending for their view of the case the representatives of the companies were indiscreet enough to attribute the under-maintenance in part to the "inefficiency of labor," and this at once became an issue. The plan embodied in the pending bill, as approved by the Administration, requires the companies to abandon their claims for under-maintenance so far as they may be based upon the "inefficiency of labor." As these claims are said to run as high as $800,000,000, it will be seen that the compromise involves important sacrifices on the part of the roads.

The Equity of the Case

The present Director General, Mr. J. C. Davis, in his memorandum to the President, urges the adoption of the Funding Plan. In respect to the creation of a debt by the Government of over a billion dollars, he writes: "To create an indebtedness to be paid by others without limit in amount is, it must be admitted, a most unusual power and was only justified by the exigencies of the war."

Had the carriers been in possession of their properties when these improvements were needed they undoubtedly would have financed them by selling securities, or the improvements would not have been made. The development of the railroad system has been commonly financed by the sale of new securities. The net earnings of the railroads never have been large enough to provide any considerable part of the new capital required for extensions and improvements. The average surplus earnings of the railroads of the country, after paying interest charges and customary dividends, have been less than $250,000,000 per annum, which makes it unreasonable to expect them to pay for additions and betterments of from half a billion to a billion dollars a year, out of current income, whether under Federal control or private management. At the present time they have not even their ordinary ability to do it, as on the average they are not earning their dividends.

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